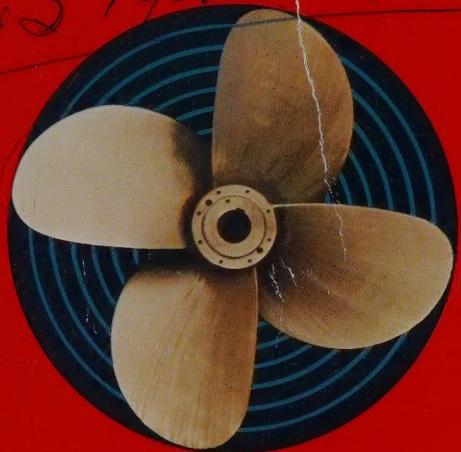


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ALIS, Gordon

500 Place  
Concord  
844-2031

Chateau  
Anspach  
Winnipeg



ANNUAL REPORT 1972



W  
CANADA STEAMSHIP LINES, LIMITED





# CANADA STEAMSHIP LINES, LIMITED



## To the Shareholders:

Net earnings for the first six months of 1972 were \$5,840,000 (\$1.83 per common share after preference dividend), up \$2,180,000 (71¢ per common share) from the comparable 1971 period as restated.

Gross revenue at \$67,099,000 is up \$8,594,000 principally in the shipbuilding division. Water transportation earnings were lower than expected owing to strikes at customer loading and unloading installations which affected both bulk and package trades. Three of these strikes have continued into August and will affect earnings for the last half of the year. Land transportation division results were modestly improved despite a forty day strike in the Quebec portion of the Voyageur bus system. Value of shipbuilding deliveries was higher and there was a significant improvement in earnings due not only to deliveries but also to the high level of activity in the three shipyards.

The results for 1972 include \$463,000 for the share of earnings of unconsolidated subsidiaries and affiliates acquired as at June 15, 1972 from Power Corporation of Canada, Limited at their fair market value of \$145,327,000 of which \$70,527,000 was paid in cash and \$74,800,000 by issue of term indebtedness. To assist in financing the cash portion of this investment, the Company arranged a term bank loan of \$50,000,000.

The last half of 1972 is expected to show improvement in operating results over 1971. In addition, there will be a sharp increase in share of earnings of newly acquired subsidiaries and affiliates against which there will be a substantial increase in long term debt service charges, the net of which is expected to produce a positive contribution to net earnings.

During 1972, the Board of Directors received the resignations of Messrs. D. S. Anderson, J. B. Barber, B. Desjardins, C. A. Geoffrion, Hazen Hansard and D. S. Holbrook, none of whom were directors of Power Corporation of Canada, Limited or officers of Canada Steamship Lines, Limited. We join with the remaining members of the Board in thanking these well-known businessmen for the outstanding contribution that they made to the Company during their tenure of office.

J. W. McGiffin  
Chairman

Louis R. Desmarais  
President

## Aux Actionnaires:

Les bénéfices nets pour les premiers six mois de 1972 ont été de \$5,840,000 (\$1.83 par action ordinaire, après dividende privilégié), soit une augmentation de \$2,180,000 (71¢ par action ordinaire) sur ceux de la même période de 1971, tels que redressés.

Les revenus bruts furent de \$67,099,000, soit une augmentation de \$8,594,000 due principalement à la division des chantiers maritimes. Les bénéfices du transport maritime furent moins que prévus principalement à cause de grèves aux installations de chargement et de déchargement de nos clients qui ont affecté le commerce en vrac et de messagerie. Trois de ces grèves se sont poursuivies jusqu'en août et affecteront les bénéfices du deuxième semestre de l'année. Les résultats de la division du transport routier se sont légèrement améliorés malgré une grève de quarante jours dans la section du Québec du réseau d'autobus Voyageur. La valeur des livraisons des chantiers maritimes fut plus élevée et il y a eu une amélioration importante des bénéfices due non seulement aux livraisons mais aussi au niveau élevé d'activité dans les trois chantiers.

Les résultats de 1972 comprennent \$463,000 représentant la part des bénéfices de filiales non consolidées et de compagnies affiliées acquises le 15 juin 1972 de Power Corporation of Canada, Limited à leur valeur du marché de \$145,327,000 dont \$70,527,000 furent acquittés au comptant et \$74,800,000 par émission de dette à terme. Afin de faciliter le financement de la partie versée de ce placement, la compagnie a conclu un emprunt bancaire à terme de \$50,000,000.

On prévoit que la seconde moitié de 1972 devrait montrer une amélioration sur les résultats d'exploitation de 1971. De plus, il y aura une augmentation prononcée dans la part des bénéfices des filiales nouvellement acquises et des compagnies affiliées ainsi qu'une augmentation importante dans les frais du service de la dette à long terme, le solde net devant apporter une contribution positive aux bénéfices nets.

Au cours de 1972, le conseil d'administration a reçu la démission de messieurs D. S. Anderson, J. B. Barber, B. Desjardins, C. A. Geoffrion, Hazen Hansard et D. S. Holbrook, dont aucun n'était administrateur de Power Corporation of Canada, Limited ou membre des cadres supérieurs de Canada Steamship Lines, Limited. Nous nous joignons aux autres membres du conseil d'administration pour remercier ces hommes d'affaires bien en vue de l'énorme contribution qu'ils ont apportée à la compagnie au cours de leur mandat.

le président du conseil  
J. W. McGiffin

le président  
Louis R. Desmarais

THOUSANDS  
SIX MONTHS ENDED JUNE 30

**CONSOLIDATED  
STATEMENT  
OF  
EARNINGS  
(UNAUDITED)**

	<b>1972</b>	<b>1971</b>
Gross Revenue from Operations	\$67,099	\$58,505
Earnings from Operations	13,146	11,173
Income from Investments	944	712
	<hr/>	<hr/>
Interest on Long-Term Debt	1,102	547
Provision for Depreciation	5,375	5,064
	<hr/>	<hr/>
6,477	5,611	
	<hr/>	<hr/>
7,613	6,274	
Income Taxes – Note 1.	2,236	2,614
	<hr/>	<hr/>
5,377	3,660	
Share of Earnings of Unconsolidated Subsidiaries and Affiliates	463	–
	<hr/>	<hr/>
Net Earnings for Period	5,840	3,660
Preference Dividend	287	287
	<hr/>	<hr/>
Earnings Applicable to Common Shares	\$ 5,553	\$ 3,373
	<hr/>	<hr/>
Earnings per Common Share	\$ 1.83	\$ 1.12
Common Shares Outstanding at June 30	3,040	3,004
Net Gain on Capital Asset Transactions not included above	\$ 26	\$ 89

**CONSOLIDATED  
STATEMENT  
OF SOURCE  
AND APPLICATION  
OF FUNDS  
(UNAUDITED)**

Source of Funds:		
From Operations		
Net Earnings	\$ 5,840	\$ 3,660
Depreciation	5,375	5,064
Deferred Income Taxes	(268)	649
Other	(634)	113
	<hr/>	<hr/>
10,313	9,486	
Working Capital of Wholly Owned Subsidiaries Acquired	13,019	–
Common Shares Issued for Cash	–	163
Proceeds on Disposal of Fixed Assets	765	561
Issue of Long-Term Debt	2,700	1,400
Net Decrease in Mortgages and Secured Loans	193	424
Decrease in Debentures Receivable	1,700	–
	<hr/>	<hr/>
28,690	12,034	
Application of Funds:		
Additions to Fixed Assets	15,484	6,814
Repayment of Long-Term Debt	1,545	1,545
Cash Paid in Acquisition of Subsidiaries and Affiliates	20,527	404
Dividends	287	2,690
	<hr/>	<hr/>
37,843	11,453	
Working Capital Increase (Decrease)	<hr/>	<hr/>
	\$ (9,153)	\$ 581

**NOTE 1. CHANGE IN ACCOUNTING METHOD**

The reported figures for the six months ended June 30, 1971 have been restated to give effect to a change, made in December 1971, in the method of accounting for deferred income taxes provided with respect to vessels sold where the proceeds of sale are applied to the construction or conversion of other vessels. The effect of the change has been to reduce the provision for deferred income taxes for the six months ended June 30, 1971 to an amount \$228,000 less than would have been provided under the former method.



EN MILLIERS  
SIX MOIS TERMINÉS LE 30 JUIN

**ÉTAT  
CONSOLIDÉ  
DES  
BÉNÉFICES  
(NON VÉRIFIÉ)**

	1972	1971 (redressé)
Revenus bruts d'exploitation . . . . .	<u>\$67,099</u>	<u>\$58,505</u>
Bénéfices d'exploitation . . . . .	<u>13,146</u>	<u>11,173</u>
Revenus de placements . . . . .	<u>944</u>	<u>712</u>
	<u><u>14,090</u></u>	<u><u>11,885</u></u>
Intérêt sur la dette à long terme . . . . .	<u>1,102</u>	<u>547</u>
Provision pour amortissement . . . . .	<u>5,375</u>	<u>5,064</u>
	<u><u>6,477</u></u>	<u><u>5,611</u></u>
	<u><u>7,613</u></u>	<u><u>6,274</u></u>
Impôts sur le revenu – note 1. . . . .	<u>2,236</u>	<u>2,614</u>
	<u><u>5,377</u></u>	<u><u>3,660</u></u>
Part des bénéfices des filiales non consolidées et des compagnies affiliées	<u>463</u>	<u>—</u>
Bénéfices nets de la période . . . . .	<u>5,840</u>	<u>3,660</u>
Dividende privilégié . . . . .	<u>287</u>	<u>287</u>
Bénéfices applicables aux actions ordinaires . . . . .	<u><u>5,553</u></u>	<u><u>3,373</u></u>
Bénéfices par action ordinaire . . . . .	<u>\$ 1.83</u>	<u>\$ 1.12</u>
Actions ordinaires en circulation au 30 juin . . . . .	<u>3,040</u>	<u>3,004</u>
Gain net sur transactions d'immobilisations non inclus ci-haut . . . . .	<u>\$ 26</u>	<u>\$ 89</u>

**ÉTAT  
CONSOLIDÉ  
DE LA PROVENANCE  
ET DE L'UTILISATION  
DES FONDS  
(NON VÉRIFIÉ)**

Provenance des fonds:		
De l'exploitation		
Bénéfices nets . . . . .	<u>\$ 5,840</u>	<u>\$ 3,660</u>
Amortissement . . . . .	<u>5,375</u>	<u>5,064</u>
Impôts sur le revenu reportés . . . . .	<u>(268)</u>	<u>649</u>
Autre . . . . .	<u>(634)</u>	<u>113</u>
	<u><u>10,313</u></u>	<u><u>9,486</u></u>
Fonds de roulement des filiales acquises en exclusivité . . . . .	<u>13,019</u>	<u>—</u>
Actions ordinaires émises au comptant . . . . .	<u>—</u>	<u>163</u>
Produits de l'aliénation d'immobilisations . . . . .	<u>765</u>	<u>561</u>
Emission de dette à long terme . . . . .	<u>2,700</u>	<u>1,400</u>
Diminution nette des hypothèques et des emprunts garantis . . . . .	<u>193</u>	<u>424</u>
Diminution des débentures à recevoir . . . . .	<u>1,700</u>	<u>—</u>
	<u><u>28,690</u></u>	<u><u>12,034</u></u>
Utilisation des fonds:		
Additions aux immobilisations . . . . .	<u>15,484</u>	<u>6,814</u>
Remboursement de la dette à long terme . . . . .	<u>1,545</u>	<u>1,545</u>
Paiement comptant à l'acquisition de filiales et de compagnies affiliées	<u>20,527</u>	<u>404</u>
Dividendes . . . . .	<u>287</u>	<u>2,690</u>
	<u><u>37,843</u></u>	<u><u>11,453</u></u>
Augmentation (diminution) du fonds de roulement . . . . .	<u><u>\$ (9,153)</u></u>	<u><u>\$ 581</u></u>

**NOTE 1. CHANGEMENT DE PRATIQUE COMPTABLE**

Les montants présentés pour les six mois terminés le 30 juin 1971 ont été redressés pour tenir compte d'un changement effectué en décembre 1971 dans la méthode de comptabilisation de la provision pour impôts sur le revenu reportés touchant les navires vendus là où le produit de la vente est affecté à la construction ou à la conversion d'autres navires. Ce changement a eu pour effet de réduire la provision pour impôts sur le revenu reportés pour les six mois terminés le 30 juin 1971 à un montant de \$228,000 moindre de ce qu'il aurait été suivant la méthode antérieure.

**AR80**

Interim Report  
June 30, 1972

Rapport intérimaire  
au 30 juin 1972

Interim Report  
June 30, 1972

Rapport intérimaire  
au 30 juin 1972

CANADA  
STEAMSHIP LINES,  
LIMITED

CANADA  
STEAMSHIP LINES,  
LIMITED

# CANADA STEAMSHIP LINES, LIMITED and Subsidiary Companies

## Executive Officers

J. W. McGiffin	<i>Chairman of the Board</i>
Louis R. Desmarais	<i>President and Chief Executive Officer</i>
W. G. Black	<i>Vice-President, Finance, and Secretary</i>
W. J. Hines	<i>Vice-President, Land Transportation</i>
W. H. Johnston	<i>Vice-President, Water Transportation</i>
Arthur Nightingale	<i>Vice-President, Shipbuilding</i>
J. D. Harper	<i>Comptroller</i>
D. P. Grinton	<i>Treasurer</i>

## Directors

Louis R. Desmarais	<i>Montreal, Quebec. President &amp; Chief Executive Officer, Canada Steamship Lines, Limited</i>
Paul G. Desmarais	<i>Montreal, Quebec. Chairman &amp; Chief Executive Officer, Power Corporation of Canada, Limited</i>
Paul E. Martin	<i>Montreal, Quebec. Vice-President, Power Corporation of Canada, Limited</i>
J. W. McGiffin	<i>Montreal, Quebec. Chairman, Canada Steamship Lines, Limited</i>
A. D. Nesbitt, O.B.E.	<i>Montreal, Quebec. Chairman &amp; Chief Executive Officer, Nesbitt, Thomson and Company, Limited</i>
Jean Parisien	<i>Montreal, Quebec. President, Power Corporation of Canada, Limited</i>
Peter N. Thomson	<i>Montreal, Quebec. Deputy Chairman, Power Corporation of Canada, Limited</i>

*Pour un exemplaire de ce rapport en français, s.v.p., écrire au Secrétaire.*

## FINANCIAL HIGHLIGHTS

	1972	1971
Gross revenue from operations . . . . .	<u>\$170,002,000</u>	<u>143,181,000</u>
Share of earnings of unconsolidated subsidiaries and affiliated company . . . . .	5,511,000	—
Interest on long-term debt . . . . .	7,574,000	1,092,000
Consolidated earnings . . . . .	13,663,000	10,890,000
Net gain on capital asset transactions . . . . .	316,000	487,000
Cash flow . . . . .	21,187,000	25,765,000
Capital expenditure — net		
Vessels . . . . .	15,621,000	7,031,000
Other . . . . .	8,058,000	8,015,000
	<u>23,679,000</u>	<u>15,046,000</u>
Depreciation . . . . .	12,442,000	11,695,000
Working capital . . . . .	16,609,000	33,940,000
Net fixed assets . . . . .	125,036,000	112,685,000
Investments . . . . .	160,619,000	10,710,000
Long-term debt . . . . .	143,898,000	12,810,000
Shareholders' equity . . . . .	117,643,000	107,235,000
Average number of employees . . . . .	8,636	7,891
Number of shareholders — December 31 . . . . .	1,692	2,099

## REPORT TO THE SHAREHOLDERS

### EARNINGS

1972 consolidated earnings were \$13,663,000, up \$2,773,000 from the \$10,890,000 earned in 1971. After preference dividends, consolidated earnings per common share were \$4.37 compared with \$3.39 in 1971. Net gain on capital asset transactions, which is not included in net earnings, amounted to \$316,000 (10¢ per common share) compared to \$487,000 in 1971 (16¢ per common share).

The results for 1972 include \$5,469,000 for the Company's share of earnings of unconsolidated subsidiaries and an affiliated company which were acquired on June 15, 1972 from Power Corporation of Canada, Limited at their then fair market value of \$145,177,000. To finance this investment, the Company borrowed \$50,000,000 through term bank loans and issued notes and a subordinated debenture to the parent company for \$74,650,000. The composition of securities purchased is set forth in note 1 to the consolidated financial statements.

Gross revenue from operations of the Company and its wholly owned subsidiaries was \$170,002,000, an increase of \$26,821,000 from 1971 which largely related to the Shipbuilding division.

### WATER TRANSPORTATION

Bulk carriage and revenue were improved, reflecting the increase in self-unloader capacity but earnings were lower than expected owing to ~~strikes at customer loading and unloading installations~~ <sup>Recover</sup>.

The Package Freight division sustained a substantial loss during the year as a result of a ten-week strike of freight handlers in the latter part of the year. A reassessment of the economic viability of this business led to a decision to restrict 1973 operations to serving the ports of Valleyfield, Hamilton, Windsor, Sault Ste. Marie and Thunder Bay. As a result, four vessels are expected to be released for service in other trades.

### SHIPBUILDING

Shipyard activities were at a high level and sales were up \$21,059,000. The Company's accounting policy is to record profits of this division only on deliveries but to provide for prospective losses on contracts in progress if these become evident during the course of construction. In the last quarter of 1972, it became apparent that a substantial cost overrun was in prospect on the \$60 million export tanker contract of Davie Shipbuilding Limited. Earnings of the company have been reduced by \$7,100,000 relative to this contract of which \$5,700,000 is a provision for estimated future excess cost to complete.

### LAND TRANSPORTATION

The Voyageur bus system of Provincial Transport Enterprises had a relatively successful year although passenger volume fell below expectations due to a forty day strike in the Quebec section of the business.

Volume and earnings of the Kingsway group were improved and gross revenue was at a record high.

The Brocklesby-Sicotte mobile crane and heavy hauling business experienced an unsatisfactory year brought about by work stoppages in the construction industry and a strike of the operating engineers.

During the year, the Company entered into an agreement to purchase all the outstanding shares of Strickland Transportation Company, Inc. of Dallas, Texas for U.S. \$14 million. Strickland is a large U.S. highway carrier with an extensive route structure serving major centres in the Northeast, Midwest and Southwest industrial areas of the United States. Gross annual revenue approximates \$45,000,000. The transaction is subject to approval by regulatory authorities.

### FINANCIAL

Working capital as at December 31, 1972 was \$16,609,000, down from \$33,940,000 largely due to the

investment in new subsidiaries and affiliates and a record level of capital expenditure.

Cash flow totalled \$21,187,000 (\$6.85 per common share) compared to \$25,765,000 (\$8.29 per common share) in 1971.

#### CAPITAL EXPENDITURE

	Thousands	
	1972	1971
Net Additions		
Vessels	\$15,621	7,031
Properties and equipment	8,058	8,015
	<u>\$23,679</u>	<u>15,046</u>

*The cost spent + delivery 1972*  
Vessel expenditures related to completion of the self-unloader J. W. McGIFFIN, conversion of the bulk carrier SAGUENAY to a self-unloader, and progress payments on a new self-unloader for delivery in August 1973. The Company is also converting the bulk carrier FRONTENAC to a self-unloader at the Collingwood shipyard during the 1972/73 winter. *wrh*

Major additions to properties and equipment include a prefabrication shop at Collingwood, a new tug at Davie Shipbuilding, a new Voyageur bus terminal in Ottawa and substantial replacements and additions to Land Transportation road equipment.

#### LABOUR RELATIONS

Agreements with Voyageur and Kingsway Quebec employees and CSL freight handlers were concluded in 1972. In 1973, contracts are to be negotiated with shipyard workers at Lauzon, Collingwood and Thunder Bay and the Voyageur bus employees in Ontario.

#### EMPLOYEES

Your Directors regret to report the death of Mr. T. Rodgie McLagan, former Chairman of the Board, who was closely associated with the Company's successful development over many years.

In early 1973, W. H. Johnston was appointed Vice-President, Water Transportation and Arthur Nightingale was appointed Vice-President, Shipbuilding.

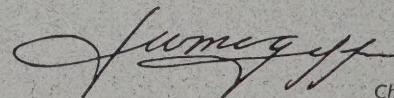
The management development program instituted in 1971 was fully implemented during the year and we are pleased with the results to date.

Your Directors are conscious of the demanding conditions confronting the Company's officers and employees and wish to record their sincere appreciation for the outstanding efforts put forth during the year.

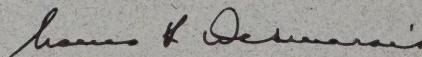
#### OUTLOOK

A full year's share of earnings of newly acquired subsidiaries and affiliates should make an increased contribution to consolidated earnings. Our traditional businesses are expected to show further progress. With the addition of the new self-unloader and the converted FRONTENAC in 1973, self-unloader capacity will then exceed the capacity of straight bulk ships. This section of our business has reflected considerable expansion in recent years and future prospects are encouraging. The land transportation companies are expected to show continued growth and, if the Strickland acquisition is approved, this division should then generate gross revenue in excess of \$125,000,000. The shipyards have a large volume of work to complete and the outlook for new orders is promising.

*On behalf of the Board,*



Chairman



President

Montreal, March 14, 1973

# CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

Year ended December 31, 1972, with comparative figures for 1971

*C-B should declare dividend this year  
June 1972 - up very sizably  
In 1973 larger  
will consolidate anticipated - Balance  
to x40.2  
Run a strict under 8% expense - 1972  
1971*

	<u>1972</u>	<u>1971</u>
Gross revenue from operations — note 4	\$170,002,000	143,181,000
Earnings from operations	\$ 26,241,000	30,448,000
Income from investments	2,701,000	1,608,000
	<u>28,942,000</u>	<u>32,056,000</u>
Interest on long-term debt	7,574,000	1,092,000
Provision for depreciation	12,442,000	11,695,000
	<u>20,016,000</u>	<u>12,787,000</u>
Net earnings before income taxes and the undenoted items	8,926,000	19,269,000
Income taxes — note 8	589,000	8,379,000
	<u>8,337,000</u>	<u>10,890,000</u>
Share of earnings of unconsolidated subsidiaries and affiliated company	5,511,000	—
	<u>13,848,000</u>	<u>10,890,000</u>
Dividends on preferred shares of consolidated subsidiary	185,000	—
Consolidated earnings	<u>13,663,000</u>	<u>10,890,000</u>
Retained earnings at beginning of year	74,628,000	67,938,000
Share of earnings of unconsolidated subsidiary not included in prior years	345,000	—
Net gain on capital asset transactions	316,000	487,000
Increase arising from changes in retained earnings of unconsolidated subsidiaries	520,000	—
	<u>89,472,000</u>	<u>79,315,000</u>
Dividends: Preference	(377,000)	(573,000)
Common	(912,000)	(3,905,000)
Cost of shares of consolidated subsidiary in excess of equity in net assets at date of acquisition	—	(209,000)
Retained earnings at end of year	<u>\$ 88,183,000</u>	<u>74,628,000</u>
Per common share: Consolidated earnings	\$4.37	3.39
Net gain on capital asset transactions	.10	.16

Notes to the consolidated financial statements are an integral part of this statement.

# CONSOLIDATED BALANCE SHEET

December 31, 1972, with comparative figures for 1971

Assets	1972	1971
CURRENT ASSETS:		
Cash . . . . .	\$ 2,439,000	2,339,000
Short-term securities and Government of Canada bonds at cost, which approximates market value — note 7 . . . . .	20,799,000	35,853,000
Short-term notes issued by unconsolidated subsidiaries . . . . .	3,988,000	—
Accounts receivable . . . . .	18,891,000	19,766,000
Income taxes recoverable . . . . .	1,845,000	—
Inventories of stores and supplies at the lower of cost or replacement cost and shipyard work in progress at cost less \$5,671,000 provision for loss on uncompleted contract . . . . .	72,698,000	60,975,000
Prepaid expenses . . . . .	751,000	910,000
	<u>121,411,000</u>	<u>119,843,000</u>
Deduct progress payments and billings on uncompleted shipyard work .	73,086,000	59,747,000
Total current assets . . . . .	<u>48,325,000</u>	<u>60,096,000</u>
INVESTMENTS:		
Unconsolidated subsidiary companies — note 1 . . . . .	94,245,000	85,000
Quoted securities at cost — note 2 . . . . .	36,782,000	556,000
Unquoted securities at cost — note 3 . . . . .	29,592,000	10,069,000
	<u>160,619,000</u>	<u>10,710,000</u>
FIXED ASSETS AT COST — note 4 . . . . .	261,544,000	240,543,000
Less accumulated depreciation . . . . .	136,508,000	127,858,000
	<u>125,036,000</u>	<u>112,685,000</u>

On behalf of the Board:

J. W. McGIFFIN, Director  
LOUIS R. DESMARAIS, Director

\$333,980,000      183,491,000

Notes to the consolidated financial statements are an integral part of this statement.

**CANADA STEAMSHIP LINES, LIMITED and Subsidiary Companies**

**Liabilities and Shareholders' Equity**

	1972	1971
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued charges . . . . .	\$ 21,375,000	22,096,000
Income taxes payable . . . . .	1,302,000	2,374,000
Current portion of long-term debt . . . . .	9,039,000	1,686,000
Total current liabilities . . . . .	<u>31,716,000</u>	<u>26,156,000</u>
<b>DUE TO PARENT COMPANY — note 5 . . . . .</b>	<b>74,650,000</b>	—
<b>LONG-TERM DEBT, LESS CURRENT PORTION — note 6 . . . . .</b>	<b>69,248,000</b>	<b>12,810,000</b>
<b>DEFERRED INCOME TAXES . . . . .</b>	<b>34,677,000</b>	<b>34,649,000</b>
<b>PROVISIONS:</b>		
Insurance losses, repairs and claims . . . . .	1,711,000	1,589,000
Deferred compensation . . . . .	835,000	1,052,000
	<u>2,546,000</u>	<u>2,641,000</u>
<b>PREFERRED SHARES OF CONSOLIDATED SUBSIDIARY . . . . .</b>	<b>3,500,000</b>	—
<b>SHAREHOLDERS' EQUITY:</b>		
Capital stock:		
Authorized —		
1,834,000 5% cumulative redeemable preference shares of \$6.25 each		
4,000,000 common shares of no par value		
Issued and fully paid —		
1,834,000 preference shares . . . . .	11,462,000	11,462,000
3,040,000 common shares . . . . .	21,145,000	21,145,000
	<u>32,607,000</u>	<u>32,607,000</u>
Retained earnings . . . . .	88,183,000	74,628,000
	<u>120,790,000</u>	<u>107,235,000</u>
Preference shares held by consolidated subsidiaries (par value — \$3,913,100) at cost . . . . .	3,147,000	—
Total shareholders' equity . . . . .	<u>117,643,000</u>	<u>107,235,000</u>
<b>COMMITMENTS AND CONTINGENT LIABILITIES — note 7</b>	<b>\$333,980,000</b>	<b>183,491,000</b>

# CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended December 31, 1972, with comparative figures for 1971

	1972	1971
<b>SOURCE OF FUNDS:</b>		
From operations:		
Consolidated earnings . . . . .	\$ 13,663,000	10,890,000
Earnings of unconsolidated subsidiaries and affiliated company not received in cash . . . . .	(4,042,000)	—
Depreciation . . . . .	12,442,000	11,695,000
Deferred income taxes . . . . .	222,000	2,975,000
Other . . . . .	(1,098,000)	205,000
	<u>21,187,000</u>	<u>25,765,000</u>
Working capital of wholly owned subsidiaries acquired . . . . .	13,019,000	—
Common shares issued for cash . . . . .	—	1,061,000
Proceeds on disposal of fixed assets . . . . .	1,793,000	1,983,000
Issue of debt to parent company . . . . .	74,650,000	—
Issue of long-term debt . . . . .	53,073,000	1,783,000
Decrease in unquoted securities . . . . .	3,135,000	1,093,000
	<u>166,857,000</u>	<u>31,685,000</u>
<b>APPLICATION OF FUNDS:</b>		
Additions to fixed assets . . . . .	25,472,000	17,029,000
Repayment of long-term debt . . . . .	12,250,000	2,095,000
Cost of investment in subsidiaries and affiliates . . . . .	145,177,000	379,000
Dividends . . . . .	1,289,000	4,478,000
	<u>184,188,000</u>	<u>23,981,000</u>
<b>WORKING CAPITAL INCREASE (DECREASE)</b> . . . . .	<u>\$ (17,331,000)</u>	<u>7,704,000</u>
Working capital at beginning of year . . . . .	\$ 33,940,000	26,236,000
Working capital at end of year . . . . .	<u>16,609,000</u>	<u>33,940,000</u>
<b>WORKING CAPITAL INCREASE (DECREASE)</b> . . . . .	<u>\$ (17,331,000)</u>	<u>7,704,000</u>

*Notes to the consolidated financial statements are an integral part of this statement.*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1972.

## 1. Principles of consolidation:

The consolidated financial statements include the accounts of Canada Steamship Lines, Limited and its wholly owned subsidiary companies.

Earnings of all other subsidiaries (not wholly owned and not consolidated) are included to the extent of the company's interest therein since their dates of acquisition.

On June 15 the following securities were acquired from the parent company, Power Corporation of Canada, Limited, for \$145,177,000, their fair market value. To finance this investment, 9½% notes and a debenture aggregating \$74,650,000 were issued to the parent company and term bank loans of \$50,000,000 were arranged.

	<u>Equity Interest</u>	<u>Voting Interest</u>	<u>Cost Thousands</u>	
Common shares:				
Dominion Glass Company Limited	63.0%	56.7%	\$ 20,220	<i>low</i>
The Investors Group	27.9%	50.2%	31,744	<i>30's</i>
Shawinigan Industries Limited	100.0%	100.0%	25,271	
Trans-Canada Corporation Fund	100.0%	100.0%	42,315	
Consolidated-Bathurst Limited			6,027	
Income debenture — Gesca Ltée			19,600	
			<u>\$145,177</u>	

Through its investment in Shawinigan Industries Limited and Trans-Canada Corporation Fund the company acquired an equity and voting interest of 51.2% in the Imperial Life Assurance Company of Canada and 52.4% in Laurentide Financial Corporation Ltd.

The investments in Shawinigan Industries Limited and Trans-Canada Corporation Fund have been consolidated on a purchase accounting basis. These investments were acquired for a consideration equal to the fair market value of their tangible assets.

The investment in unconsolidated subsidiaries is as follows:

	<u>Thousands</u>
Book value at date of acquisition	<u>\$69,612</u>
Cost	\$90,530
Share of earnings	4,319
Increase in equity in subsidiary company in respect of prior years	345
Increase arising from changes in retained earnings	520
Dividends received	(1,469)
	<u>\$94,245</u>

It is the policy of the company not to amortize the difference between the cost of investments in unconsolidated subsidiaries and the book value of the underlying net assets at the dates of acquisition.

**2. Quoted securities:**

Class	% of Outstanding	Thousands	
		Cost	Market Value
Argus Corporation Limited	10.4%	\$ 2,720	3,159
Consolidated-Bathurst Limited	36.4%	22,600	36,928
Preferred	4.8%	1,437	1,729
Debenture		840	930
Campeau Corporation Limited (convertible into 1,413,190 common shares)	Note	9,185	12,189
		<u>\$36,782</u>	<u>54,935</u>

**3. Unquoted securities:**

	Thousands
	1972
Gesca Ltée (an affiliate) — Income debenture maturing December 1, 2020 at cost and accrued income	\$20,792
Télémédia (Québec) Limitée — 6% General Mortgage bonds due December 31, 1976-1981 at cost and accrued interest	1,549
Non-interest bearing debentures received for franchises, motor coaches and equipment sold, payable in amounts related to the cash flow of the issuing companies in instalments to 1982	4,742
Miscellaneous investments, mortgages and advances	2,509
	<u>\$29,592</u>
	<u>10,069</u>

**4. Fixed assets and gross revenue:**

Major classifications by industry of fixed assets and gross revenue are as follows:

	Assets				
	Cost		Net Book Value		Gross Revenue
	1972	1972	1972	1971	
Water transportation . . . . .	\$160,960	82,853	73,476	46,243	46,352
Shipbuilding . . . . .	28,832	11,237	9,495	43,082	22,023
Land transportation . . . . .	61,094	27,590	26,845	74,334	69,440
Other . . . . .	10,658	3,356	2,869	6,343	5,366
	<u>\$261,544</u>	<u>125,036</u>	<u>112,685</u>	<u>170,002</u>	<u>143,181</u>

Vessels are depreciated on a straight-line basis on estimated useful lives of from 20 to 25 years. Land transportation equipment is depreciated on estimated useful life of from 5 to 10 years. The majority of the remaining assets are depreciated at the maximum rates permitted for income tax purposes.

**5. Due to parent company:**

Power Corporation of Canada, Limited		
9½% notes due June 13, 1973 . . . . .		\$40,150,000
(Right of debtors to extend maturity from time to time not exceeding 363 days for any one extension. The right to extensions expires January 15, 1980)		
9½% promissory notes due January 1, 1974 . . . . .		13,300,000
9½% subordinated debenture due July 1, 1992 . . . . .		21,200,000
		<u>\$74,650,000</u>

**6. Long-term debt:**

Term bank loans, repayable \$5,000,000 per year commencing December 1, 1973 and \$20,000,000 on December 1, 1979 bearing interest at the prime rate plus 1 1/4 % and secured by certain of the investments acquired from Power Corporation of Canada, Limited on June 15, 1972.	\$50,000,000
Government loans for construction of fixed assets repayable in four annual instalments to 1976	378,000
Secured 5% note payable by instalments related to profits of a subsidiary company	361,000
Provincial Transport Enterprises Ltd. and subsidiaries:	
6 1/2 % sinking fund debentures maturing December 15, 1979	3,321,000
Equipment trust certificates, at various rates from 6 1/4 % to 10% maturing March 1, 1973 to May 1, 1982	8,940,000
7% sinking fund debentures maturing April 1, 1976	1,155,000
7% first mortgage sinking fund bonds maturing November 15, 1975	1,722,000
Trans-Canada Corporation Fund:	
6 1/2 % redeemable secured debentures with sinking fund, maturing June 1, 1980, repayable \$300,000 per year	8,760,000
Note at prime rate plus 1% due November 1, 1978, repayable \$225,000 semi-annually	2,650,000
Shawinigan Industries Limited:	
Secured income debentures, 5 5/8 % maturing February 27, 1973	1,000,000
Deduct instalments due within one year	78,287,000 9,039,000 <hr/> \$69,248,000

Instalments due on long-term debt over the next five years are as follows:

1974 — \$7,712,000; 1975 — \$8,684,000; 1976 — \$7,737,000; 1977 — \$7,020,000;  
1978 — \$6,700,000.

**7. Commitments and contingent liabilities:**

The company entered into an agreement on November 29, 1972 to purchase the shares of Strickland Transportation Company, Inc. for U.S. \$14,000,000 and certain assets leased by Strickland Transportation Company, Inc. for U.S. \$4,400,000. This agreement is subject to the required approval being received from the appropriate regulatory authorities within two years from the date of signing. \$1,525,000 par value Government of Canada bonds have been pledged as security for performance by the company under this agreement.

In contemplation of the above share acquisition the company has purchased a forward exchange contract to protect its U.S. dollar obligation in Canadian dollar terms and has arranged with its bankers for term loan accommodation of \$10,000,000. The leased assets are financed under a 15 year term loan arranged in 1972 which can be assumed by the purchaser.

Possible claims of up to \$600,000 are currently under arbitration in accordance with the provisions of a construction contract.

The companies are committed to capital expenditures of \$15,300,000 in the year to December 31, 1973.

A letter of credit of \$5,000,000 is outstanding with respect to guarantees under contract for the construction of ships.

8. *Income taxes:*

The income tax provision reflects the recovery of income taxes paid in 1971 by certain subsidiaries by reason of application of 1972 losses of those companies. Earnings of certain of the company's foreign subsidiaries are not subject to income taxes and the taxable incomes of certain Canadian subsidiaries are reduced by capital cost allowances related to vessels purchased from the parent company, the proceeds of which are not subject to recapture under the provisions of the Income Tax Act if used for the construction or conversion of vessels in Canada. New vessels constructed are not then eligible for ship construction assistance subsidies.

9. *Remuneration of directors and officers:*

	1972		1971	
	Number	Amount	Number	Amount
Directors as directors . . . . .	19	\$ 48,000	22	\$ 62,000
Officers as officers . . . . .	9	792,000	9	567,000

Two officers of the company were also directors in 1972 (three in 1971).

Officers' remuneration in 1972 includes \$334,000 accrued in prior years and paid or payable in 1972 to retiring or deceased officers under the company's deferred compensation plan.

10. *Events subsequent to December 31, 1972:*

On March 30, 1973 a wholly owned subsidiary of the company entered into an agreement to sell its holding of 1,359,344 common shares of Dominion Glass Company Limited to Consolidated-Bathurst Limited for a maximum price of \$21,749,504, of which \$17,671,472 is due on the closing date. The balance, which is not to exceed \$4,078,032, will be determined on the basis of a formula related to the earnings of Dominion Glass Company Limited for the fiscal years ending December 31, 1973 to 1976 and will be payable on or before June 30, 1977.

### AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Canada Steamship Lines, Limited and its subsidiary companies as at December 31, 1972 and the consolidated statement of earnings and retained earnings and source and application of funds for the year then ended. For Canada Steamship Lines, Limited and those subsidiaries of which we are the auditors, our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion, except that the net gain on capital asset transactions has been credited to retained earnings rather than to earnings, these consolidated financial statements present fairly the financial position of the companies at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.,

Montreal, Quebec, March 30, 1973

Chartered Accountants.



